



National Outlook

Overview

In 2005, the economic status of the United States was characterized by moderate growth in consumer spending and corporate profits. Consumers were affected by increases in interest rates and energy prices. Construction spending slowed in 2005 and is expected to decline in 2006. The continued uncertainty related to oil and natural gas prices will affect GDP growth and spending patterns for the foreseeable future.

Summary of Economic Conditions

The Federal Reserve Board continued to tighten monetary policy in 2005, and more tightening moves are expected throughout 2006 and 2007. Inflation is not expected to be a deterrent to economic growth in the foreseeable future. In 2005, the high price of oil resulted in cautious spending among consumers and financial markets. Business spending is expected to remain strong over the next fiscal year. Car and truck sales decreased in 2005, and are expected to remain slow. Retail sales continued to grow throughout 2005. Employment expanded consistently throughout 2005.

Real GDP grew at an estimated rate of 3.6% in 2005, and is expected to remain strong with a growth rate of 3.4% in 2006. Consumer prices are expected to advance by 2.6% in 2006, a decrease from the 2005 growth rate of 3.4%.

Outlook for 2006

Real GDP is expected to increase by 3.4% in 2006. However, continued volatility in energy prices could present a risk to this growth. Rising interest rates coupled with a slowdown in mortgage refinances, as well as high energy prices, could potentially curb consumer spending in 2006.

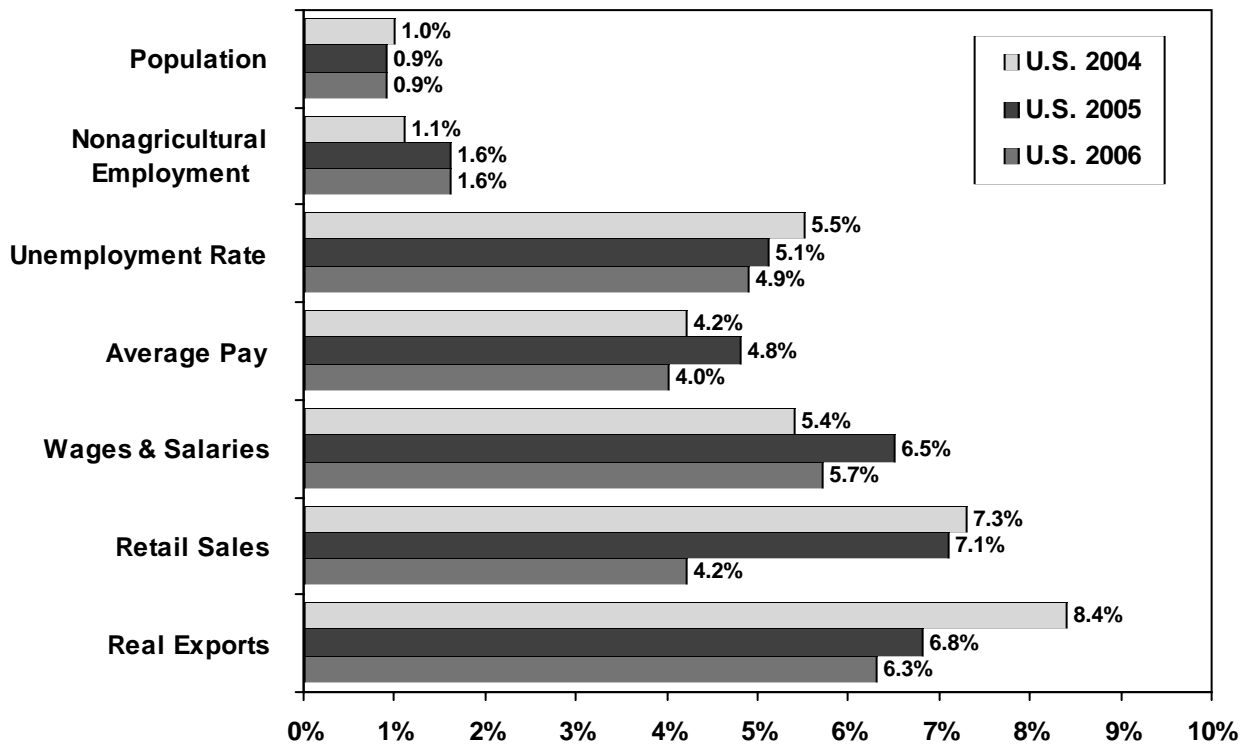
Significant Issues

Business Investment. Business investment should remain healthy throughout 2006. Equipment purchases are expected to grow at approximately 8.0%. Business construction should also remain high in 2006.

Energy Prices. Rising energy prices posed a significant risk to the economy in 2005. The higher prices have weighed on economic growth, and any increase to these prices will threaten economic expansion. The future path of energy prices will also be a significant factor in the performance of the economy in 2006. Forecasts for natural gas suggest an increase in wellhead prices between \$6.00 and \$8.00 per thousand cubic feet through 2006. Forecasts for crude oil prices call for a slight increase in 2006 compared to the average price in 2005.

Consumer Spending. The slower growth in consumer spending in 2005 and 2006 will result in lower levels of GDP growth. This is due to the fact that consumer spending accounts for more than two thirds of the GDP. High gas costs have left consumers with less to spend on other items.

Figure 1
U.S. Economic Indicators: 2004-2006



Source: Council of Economic Advisors' Revenue Assumptions Committee